

January 10, 2007

**Statement by Congressman Pete Stark
Against Medicare privatization**

Madam Speaker, as we vote later this week on negotiating better prices for Part D drugs in Medicare, we must remember that the debate is about much more than prescription drugs. Requiring the Secretary to negotiate for lower drug prices is just one small step in the fight against Medicare privatization and the conservative push to end the Medicare entitlement.

- Madam Speaker, I ask that the Paul Krugman Op-Ed from the January 5, 2007, edition of the New York Times be printed in the record.

**FIRST, DO LESS HARM
By Paul Krugman**

Universal health care, much as we need it, won't happen until there's a change of management in the White House. In the meantime, however, Congress can take an important step toward making our health care system less wasteful, by fixing the Medicare Middleman Multiplication Act of 2003.

Officially, of course, it was the Medicare Modernization Act. But as we learned during the debate over Social Security, in Bushspeak "modernize" is a synonym for "privatize." And one of the main features of the legislation was an effort to bring private-sector fragmentation and inefficiency to one of America's most important public programs.

The process actually started in the 1990s, when Medicare began allowing recipients to replace traditional Medicare--in which the government pays doctors and hospitals--with private managed-care plans, in which the government pays a fee to an H.M.O. The magic of the marketplace was supposed to cut Medicare's costs.

The plan backfired. H.M.O.'s received fees reflecting the medical costs of the average Medicare recipient, but to maximize profits they selectively enrolled only healthier seniors, leaving sicker, more expensive people in traditional Medicare. Once Medicare became aware of this cream-skimming and started adjusting payments to reflect beneficiaries' health, the H.M.O.'s began dropping out: their extra layer of bureaucracy meant that they had higher costs than traditional Medicare and couldn't compete on a financially fair basis.

That should have been the end of the story. But for the Bush administration and its Congressional allies, privatization isn't a way to deliver better government services--it's an end in itself. So the 2003 legislation increased payments to Medicare-supported H.M.O.'s, which

were renamed Medicare Advantage plans. These plans are now heavily subsidized.

According to the Medicare Payment Advisory Commission, an independent federal body that advises Congress on Medicare issues, Medicare Advantage now costs 11 percent more per beneficiary than traditional Medicare. According to the Commonwealth Fund, which has a similar estimate of the excess cost, the subsidy to private H.M.O.'s cost Medicare \$5.4 billion in 2005.

The inability of private middlemen to win a fair competition against traditional Medicare was embarrassing to those who sing the praises of privatization. Maybe that's why the Bush administration made sure that there is no competition at all in Part D, the drug program. There's no traditional Medicare version of Part D, in which the government pays drug costs directly. Instead, the elderly must get coverage from a private insurance company, which then receives a government subsidy.

As a result, Part D is highly confusing. It's also needlessly expensive, for two reasons: the insurance companies add an extra layer of bureaucracy, and they have limited ability to bargain with drug companies for lower prices (and Medicare is prohibited from bargaining on their behalf). One indicator of how much Medicare is overspending is the sharp rise in prices paid by millions of low-income seniors whose drug coverage has been switched from Medicaid, which doesn't rely on middlemen and does bargain over prices, to the new Medicare program.

The costs imposed on Medicare by gratuitous privatization are almost certainly higher than the cost of providing health insurance to the eight million children in the United States who lack coverage. But recent news analyses have suggested that Democrats may not be able to guarantee coverage to all children because this would conflict with their pledge to be fiscally responsible. Isn't it strange how fiscal responsibility is a big concern when Congress is trying to help children, but a nonissue when Congress is subsidizing drug and insurance companies?

What should Congress do? The new Democratic majority is poised to reduce drug prices by allowing--and, probably, requiring--Medicare to negotiate prices on behalf of the private drug plans. But it should go further, and force Medicare to offer direct drug coverage that competes on a financially fair basis with the private plans. And it should end the subsidy to Medicare Advantage, forcing H.M.O.'s to engage in fair competition with traditional Medicare.

Conservatives will fight fiercely against these moves. They say they believe in competition--but they're against competition that might show the public sector doing a better job than the private sector. Progressives should support these moves for the same reason. Ending the subsidies to middlemen, in addition to saving a lot of money, would point the way to broader health care reform.